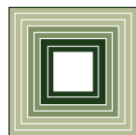


# Overview of Capital

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Fiscal Research Division

**House Appropriations Sub-Committee on Capital**

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**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Outline

- What is Capital
- Overview of Owned Buildings By State
- Overview of Capital Process
- Repair and Renovations
- Financing Options
- Recent Actions of Note
- Budget Pressures

# What is Capital (Statutorily)

- Defined in the State Budget Act (G.S. 143C)  
“A term that includes real property acquisition, new construction or rehabilitation of existing facilities, and repairs and renovations.”

# What is Capital (Practically)

- Capital is a “mission support” function that helps the State Agencies and Universities fulfill the operational and policy objectives of the State.

# Buildings Owned By State

- The State Owns 123,367,442 Gross Square Footage of Space throughout the State
- University of North Carolina System Owns 59% (72,865,578 GSF)
- State Agencies Own 41% (50,501,864 GSF)

# Gross Square Footage By State Entity (123,367,442 GSF)

Agency	Gross Square Footage	Percent of Total
University of North Carolina	72,865,578	59.06%
Public Safety	15,559,541	12.61%
Transportation	10,579,933	8.58%
Health and Human Services	7,692,705	6.24%
Administration	4,631,604	3.75%
Agriculture	4,261,904	3.45%
Environment and Nat. Resources	2,569,233	2.08%
Cultural Resources	1,564,448	1.27%

**Eight entities are responsible for 97% of State Owned Space**

# Value of Buildings Owned By State

- Insured Building Value as of Jan. 2015 is:
  - \$28.8 Billion
- General Fund Insured Value
  - \$19.2 Billion
- Non-General Fund Insured Value
  - \$9.6 Billion

# General Fund Insured Value By Entity (\$19.2 Billion)

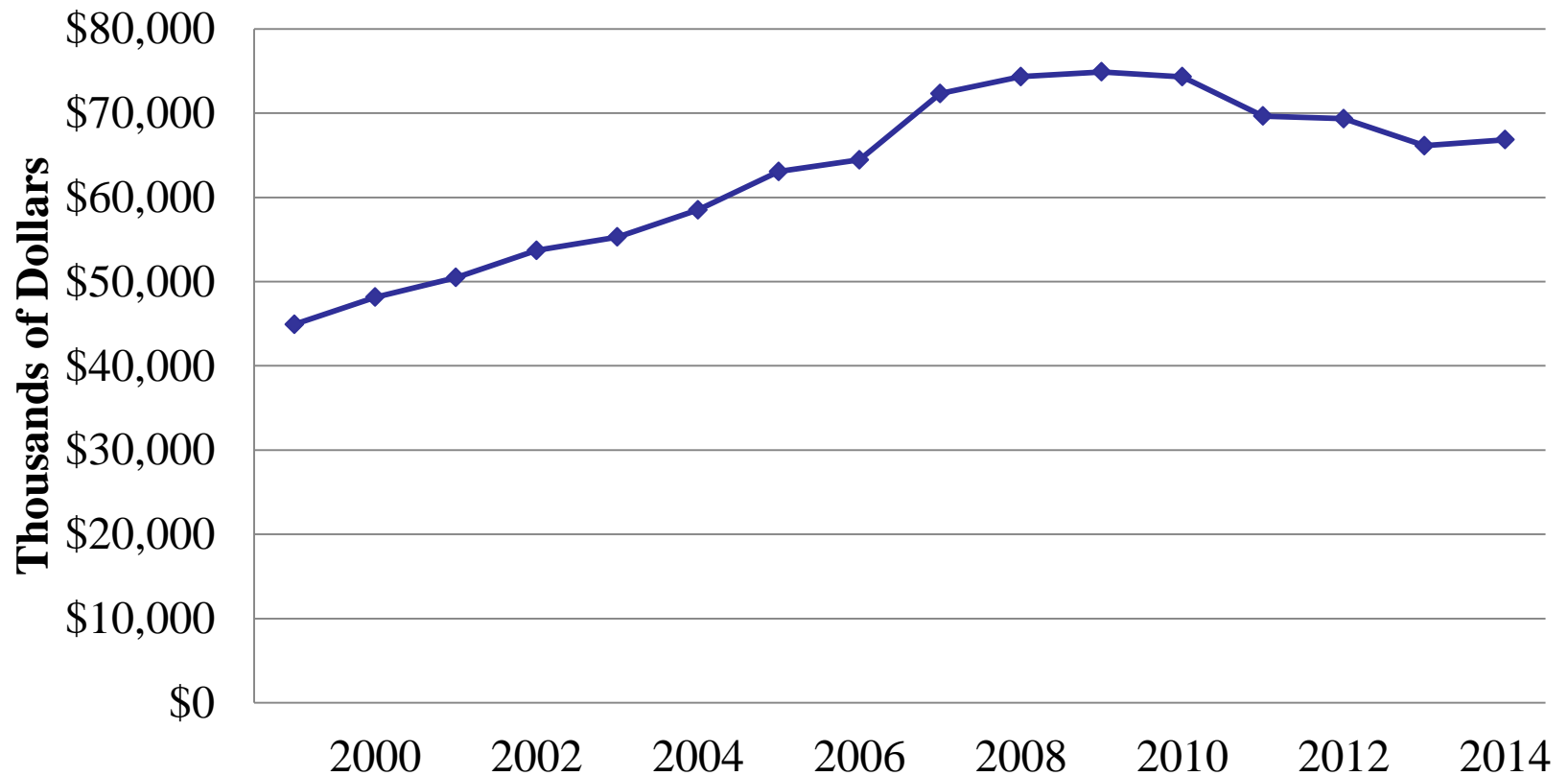
Agency	General Fund	Percent of Total
University of North Carolina	\$12,658,589,838	66%
Public Safety	\$2,623,943,217	14%
Health and Human Services	\$1,562,654,902	8%
Administration	\$842,762,326	4%
Cultural Resources	\$486,971,455	3%
Environment and Nat. Resources	\$428,009,588	2%
Agriculture	\$240,010,049	1%
Public Instruction	\$170,579,885	1%

**Eight entities are responsible for 99% of General Fund Insured Building Value**



# Leases: Statewide

**Annual Total Statewide Lease**



# Capital Improvement Process: Agency/Office of State Budget and Management

- Agencies Required to Submit Needs Estimate to Office of State Management and Budget (G.S. 143C-8-4) for Repair and Renovations and New Construction/Acquisition.
- Governor Required to Submit Six-Year Capital Improvement Plan to General Assembly (G.S. 143C-8-5) for Repair and Renovation and New Construction/Acquisition

# Capital Improvement Process: Agency/Office of State Budget and Management

- Criteria for Project Evaluation (G.S. 143C-8-3)
  - Preservation, adequacy and use of existing facilities
  - Health and safety considerations.
  - Operational efficiencies.
  - Projected demand for governmental services

# Capital Improvement Process: Agency/Office of State Budget and Management

- Capital requests must contain a detailed cost estimate (G.S. 143C-8-6)
  - Estimates certified by the Dept. of Administration's State Construction Office (G.S. 143-341(3)(b1))
  - Lack of adequate planning funds hinder cost estimates

# Capital Improvement Process: Agency/Office of State Budget and Management

- First and Last Capital Improvement Plan Submitted for FY 2007-09 Biennium
- Agencies have continued to submit needs estimates to OSBM and the General Assembly, however these have been inconsistent
- Lack of available funds for Capital, and loss of staff, are the primary reasons for lack of submissions.

# Legislative Approval Required for Capital Projects

- State agencies require Legislative approval for all capital projects (G.S. 143C-8-7)
- UNC and the National Guard may begin a capital project provided they are funded by receipts and require no General Fund operating support (G.S. 143C-8-12)

# General Assembly Process

- Capital and Debt Service Handled by Full Appropriations Chairs at House and Senate Level
- Capital rarely receives a “spending target” until very late in the appropriations process
- Capital decision making process normally handled in private with Full Appropriations Chairs

# Agency/Campus Roles

- The Agency is the “Owner” of their buildings
- Capital appropriations are directed to the Agency, who manages the capital process
- The State Construction Office and State Building Commission have review and approval authority at a variety of stages, save for projects under \$2 million at UNC



# Repairs and Renovation Reserve

- Per the State Budget Act, one quarter of the year end credit balance should go toward repair and renovations of General Fund supported State facilities
  - This has never occurred
  - Repair and Renovations funded on a non-recurring basis, as funds are available
- Rating agencies, however, give the State credit for the policy/intent of Statute

# Repair and Renovations Reserve

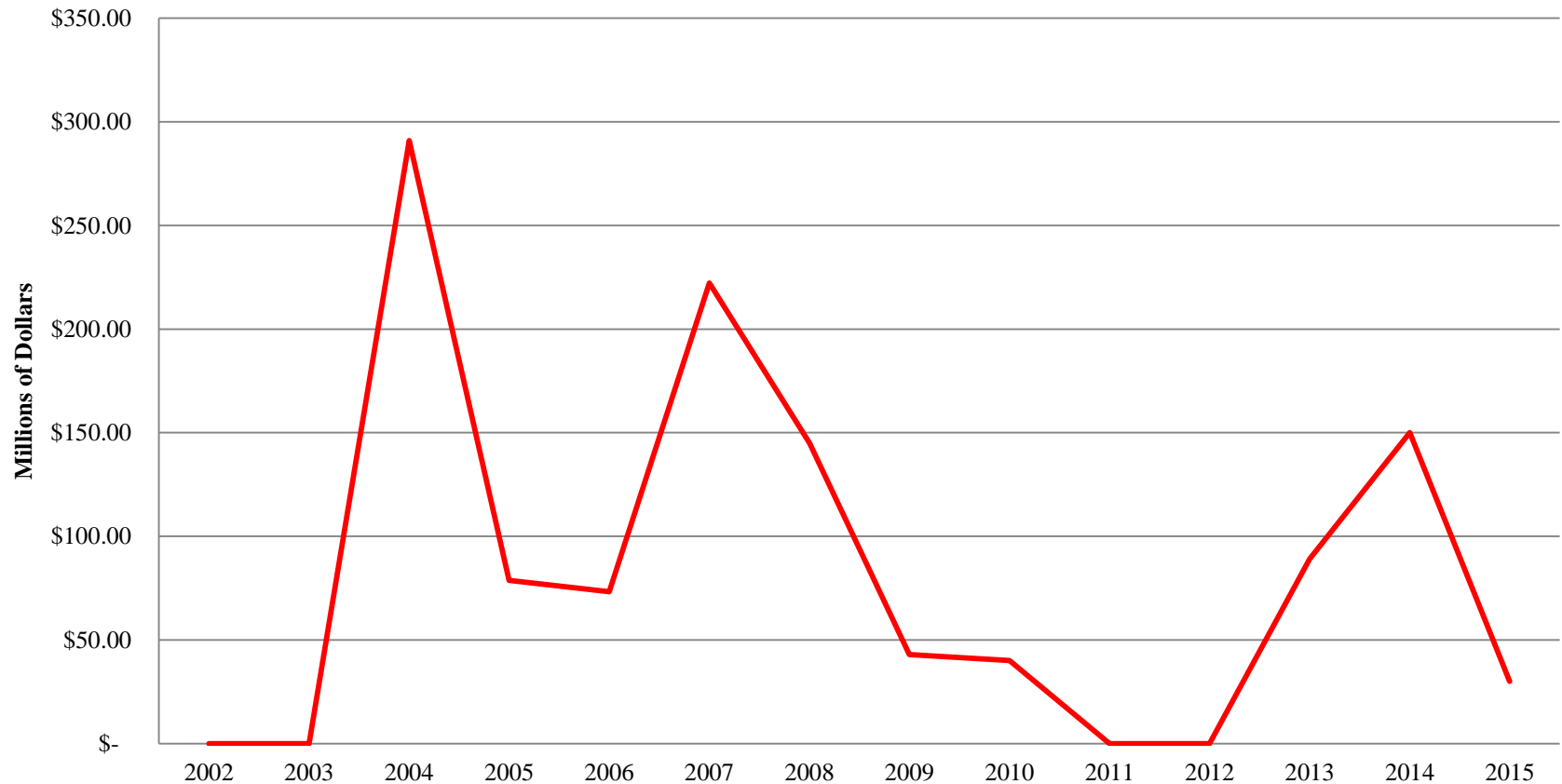
- Allocated among UNC and State Agencies in the Appropriations Act.
  - Currently 60% State Agencies and 40% UNC
  - Was 50/50 to State Agencies and UNC from FY 2010 to FY 2013
  - Prior to FY 2010 was 54% to State Agencies and 46% to UNC
- OSBM handles allocation to State agencies
- UNC handles allocation to Campuses

# Repair and Renovation Funding

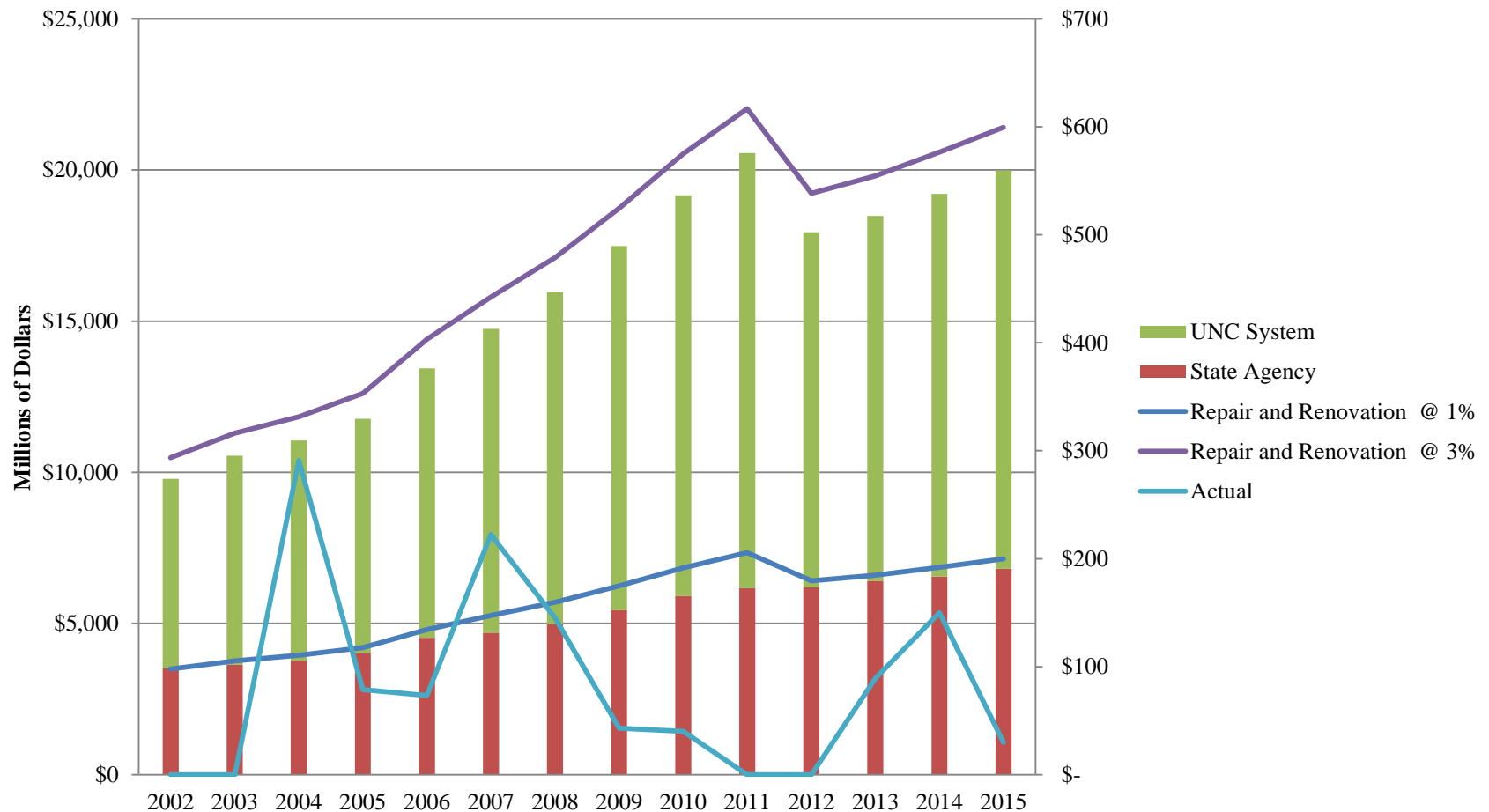
- Best Practices state that Repair and Renovations funding should equate to 1-3% of building value per year:
  - 1% of Building Value would be \$192 million
  - 3% of Building Value would be \$596 million

# Repair and Renovations Funding

## R&R Appropriations Over Time



# Replacement Value of Buildings vs. R&R Funding



# Condition of Facilities (General Fund)

- Department of Administration required to maintain Facilities and Condition Assessment Program (FCAP)
  - Six year funding need for State facilities
  - UNC Need: \$2.4 Billion (2015)
  - State Agency Need: \$1.9 Billion (2015)
  - Ongoing process, several counties based on estimates from earlier FCAP's

# Methods of Financing Capital Projects

- General Funds
- Agency Receipts
- Debt

# Types of State Debt

- General Obligation Debt:
  - Secured by the faith and credit of the State
  - Requires the approval of the majority of the Voters
- Two Thirds/Legislative Bonds
  - Secured by the faith and credit of the State
  - Voter approval is not necessary
  - Limited to the amount of indebtedness reduced during previous biennium



# Types of Debt: Continued

- Revenue Bonds:
  - Backed by revenues generally tied to the project being financed
- Special Obligation Bonds:
  - Backed by various agency revenues
  - Limited to the University of North Carolina System

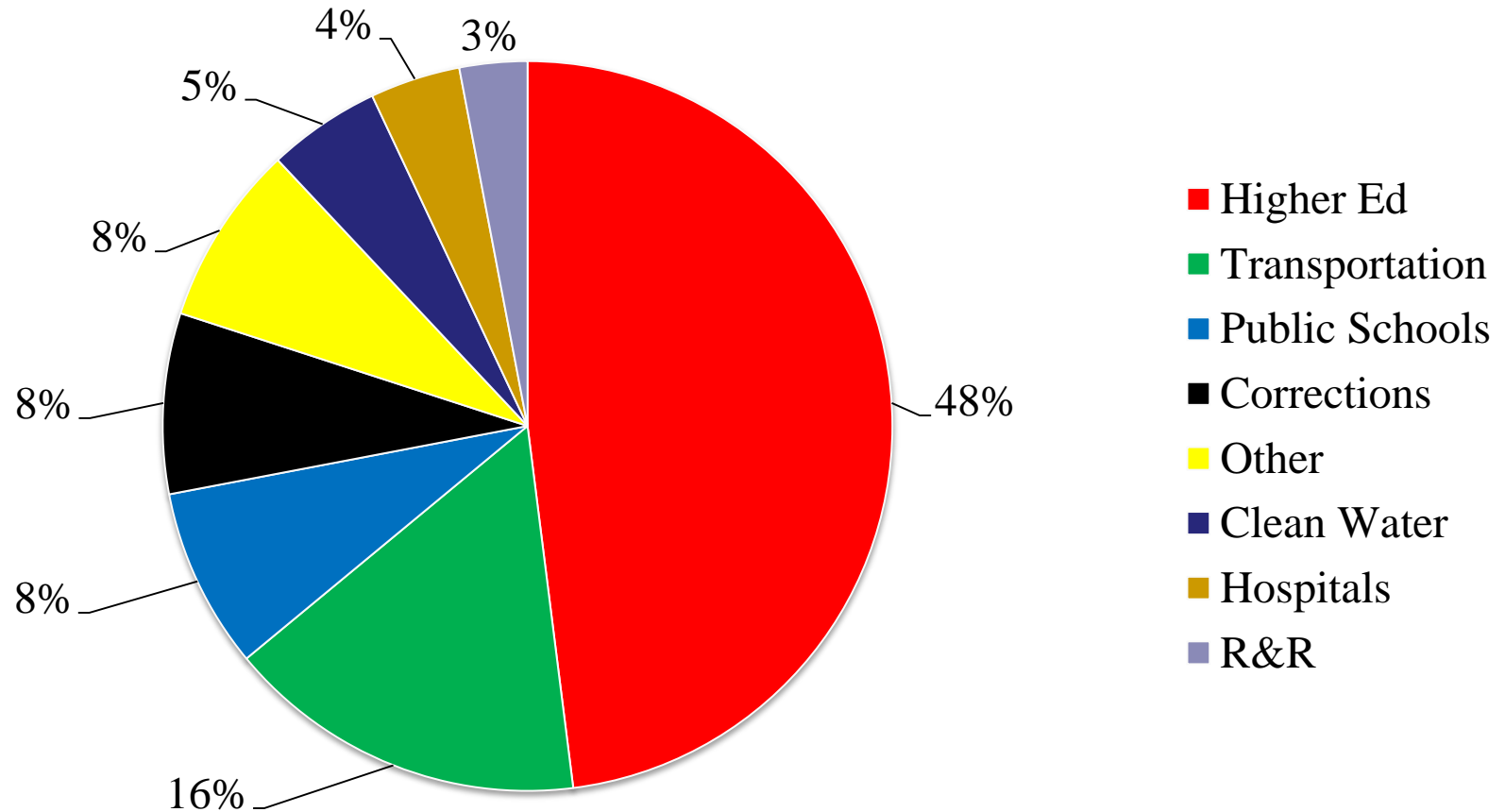
# Types of Debt: Continued

- Special Indebtedness and COPS
  - Backed by pledge of appropriation
  - Item being financed may be pledged as security
  - Statutory framework enacted in 2003

# Outstanding Debt (FY 2014)

- General Obligation Bonds:
  - \$3.607 Billion
- Special Indebtedness:
  - \$2.384 Billion
- GAP Appropriations Bonds (NCTA)
  - \$0.769 Billion
- Installment Purchase/Capital Lease:
  - \$0.004 Billion

# Debt Purposes – Total Tax Supported



# Special Indebtedness\*

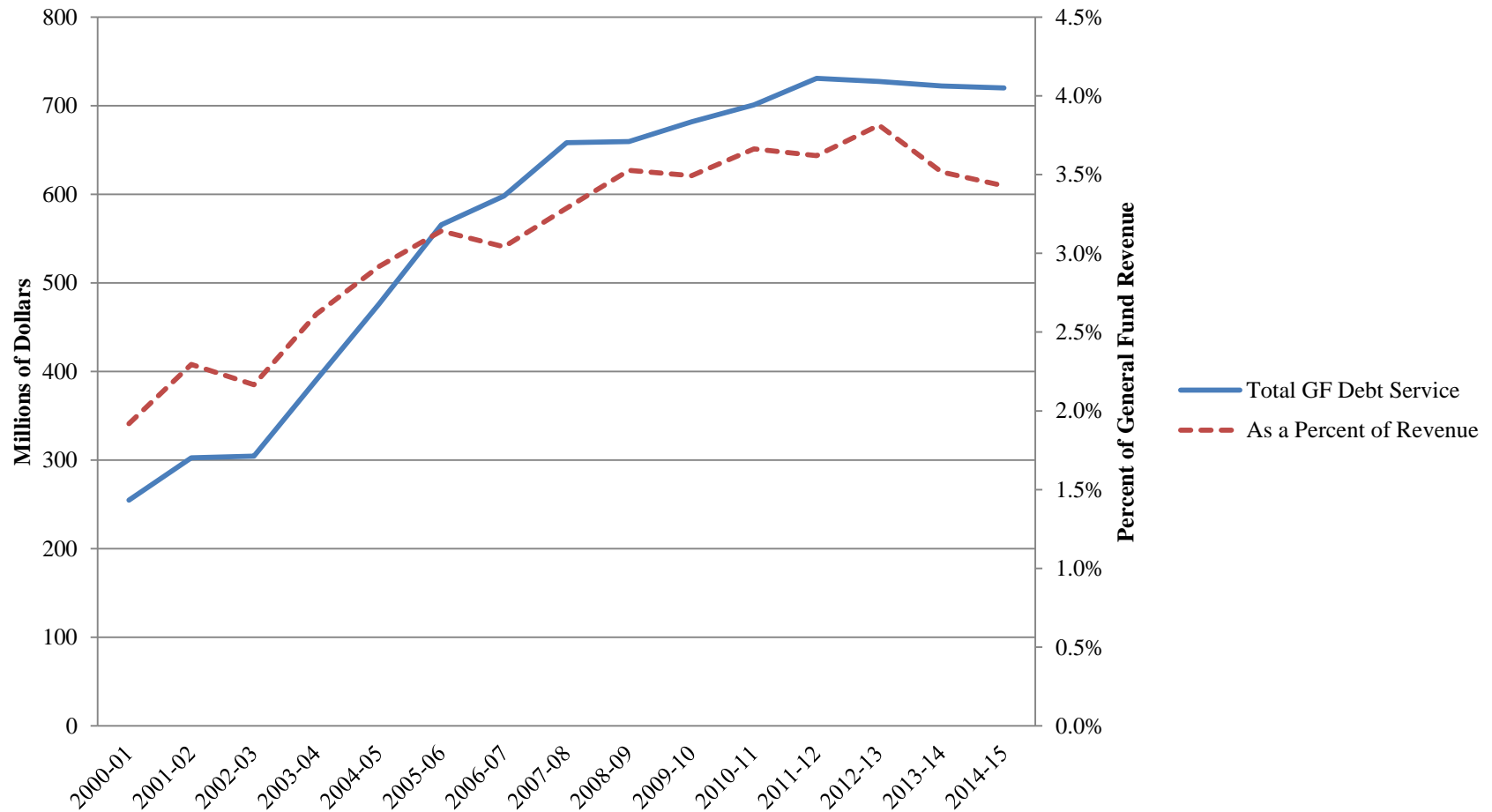
Project	Amount (Billions)	Percentage
Corrections	\$0.8	22%
Psychiatric Hospitals	\$0.4	11%
University	\$1.6	42%
Parks and Land	\$0.2	5%
Repair and Renovation	\$0.4	9%
Other	\$0.4	11%
<b>Total</b>	<b>\$3.8</b>	<b>100%</b>

**\* Does not reflect the use of Two Thirds Bonds authorized in FY 2014-15**

# Debt Management

- Credit Rating:
  - Aaa (Moody's), AAA (S&P), AAA (Fitch)
- Payout Ratio:
  - Ten year pay out ratio of 72% at June 30, 2014
- Variable Rate Debt:
  - None

# Debt Service History



# Debt Rankings

- Debt Per Capita: 31<sup>st</sup>
- Percent of Personal Income: 32<sup>nd</sup>
- Total Debt (Net): 17<sup>th</sup>
- Percent of GSP: 35<sup>th</sup>
- Debt Service Ratio: 31<sup>st</sup>

2014 Moody's State Debt Medians Study



# General Fund Debt Availability (Debt Service at 4% of General Fund Revenue)

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Total Additional Debt Capacity	\$871.0	\$888.7	\$437.9	\$595.5	\$871.6
Debt Capacity Available Each and Every Year	\$698.2	\$698.2	\$698.2	\$698.2	\$698.2

**Two Thirds Bond Availability: \$345 million**

# Recent Actions by the General Assembly

- Appropriated Water Resources Funds:
  - \$11.5 and \$5.8 million for FY 2013-15
- Appropriated National Guard Armory Funds:
  - \$5 and \$3.2 million for FY 2013-15
- DPS Samarkand Phase 1 Construction
- Appropriated Planning Funds:
  - ASU Health Sciences
  - DCR Museum of History Expansion

# Recent Actions by the General Assembly

- S.L. 2013-78: Limited special indebtedness and COPS to no more than 25% of the outstanding authorized and issued debt
- Refinanced \$206 million in non-voted debt with Two-Thirds Bonds
- Authorized \$100 million in Two-Thirds Bonds

# Recent Actions by the General Assembly

- New Debt Issuance For:
  - Albemarle Building Renovation
  - Western Crime Lab
  - Repair and Renovations
  - Hammocks Beach State Park Land Purchase
  - U.S.S. North Carolina Hull Repairs
  - Samarkand Phase 1 Project
  - DACS Roof Replacement/Repair

# Budget Pressures

- Water Resources
- Repair and Renovations
- National Guard Armories
- Appalachian State School of Health Sciences
- USS North Carolina

# Budget Pressures

- Samarkand Phase Two
- NC State Plant Sciences Building
- DCR Museum of History
- Other General Assembly Priorities

# University of North Carolina

- Self Liquidating Debt
  - Statutory framework created with the 2000 Higher Education Bonds
- Pledge of “Obligated Resources”
  - Rents, charges, or fees
  - Earnings on the investment of the endowment fund
  - Overhead Receipts
  - No pledge of appropriation\* or tuition

# University of North Carolina

## Approval Required:

- Approval by Board of Trustees (campus)
- Approval of Board of Governors (system)
- Authorization by General Assembly
  - Authorization typically occurs in the “Self Liquidating Bill”
- Approval by Director of the Budget



# University of North Carolina

- Total Outstanding Debt: \$4,241,622,944
- 2015 Self Liquidating Request: \$184,500,000
  - ASU New Residence Hall
  - ECU Renovation of Residence Halls (Four)
  - NCCU Infrastructure Repairs and Maintenance
  - NCSU Engineering Building IV and Infrastructure

# Priorities and Funding Decisions

- What are the Houses' Priorities
  - How will these priorities be set and communicated
  - Agencies and Universities
- How should the General Assembly allocate its resources
  - Cash, Debt Capacity, Receipts, etc.

# Questions

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